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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Healthier Balance Sheets . . .

Located amid the rubble of such dour economic news as postwar high unemployment rates, record low sales of single-family homes and another slump in new factory orders are not only further glimmers of recovery (Financial Digest—June 7, 1982), but clearer signs as to the direction the recovery will take. For despite the persistence of widespread pessimism over the economic outlook, households have apparently decided to boost spending—fueled in part by the strong improvements in household finances which have already occurred, as well as those anticipated to occur shortly. This suggests that a consumer-led rebound may be near. And while autos and housing are not expected to contribute much to this rebound, even increased spending for such consumer items as softgoods, electronics and small-ticket durables may be sufficient to provide at least a modicum of thrust to the economy.

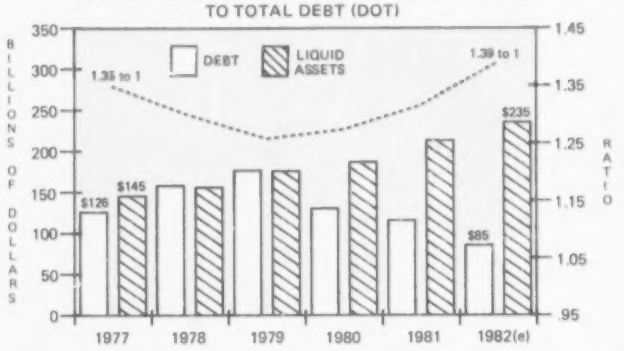
According to the Commerce Department, sales at the nation's retail establishments, after adjustment for seasonality but not for inflation, rose 1.5 per cent in May month-over-month, following a 0.7 per cent gain in April. While the continuing upturn in retail sales was, by itself, welcome, when you consider the exceptionally low rate of inflation prevailing during the period, this gain becomes even more impressive. For if the preliminary numbers hold up, the back-to-back increase in "real" retail sales in April and May could well be the largest gain for any two-month period since 1976.

Meanwhile, a report by the Federal Reserve confirmed the more aggressive buying posture adopted by consumers since the onset of spring. Consumer installment credit outstanding rose by a strong $1.2 billion in April, the largest monthly increase in seven months. While outstanding auto credit posted a good-sized $233 million increase—its first this year—all types of installment debt, including credit card (which rose the most) and mobile home, advanced in April.

. . . And A Midsummer Boost To Cash Flow . . .

In recent months, consumer financial positions have improved as a result of the cautious acquisition of new debt and a sharp increase in holdings of liquid financial assets. During the six months ending April 30, for example, consumer installment debt outstanding increased, on average, by less than $550 million per month. This was 70 per cent below the average monthly gain posted during the same period one year earlier—and only one-quarter the size of the monthly rise in installment debt outstanding during the immediately preceding six-month period.

CHANGE IN TOTAL HOUSEHOLD DEBT AND LIQUID ASSETS (BARS) VS. RATIO OF TOTAL LIQUID ASSETS TO TOTAL DEBT (DOT)



What is more, because of the paltry pace of debt acquisition and still hefty disposable income gains, both the relative size as well as the burden of this debt has diminished. Specifically, the ratio of total installment debt outstanding to disposable income, at 15½ per cent, dropped during the first quarter of 1982 to its lowest level in five years. Even more noteworthy was the decline in the proportion of incomes that is used to repay previously-incurred installment debt. During the first quarter of 1982, the ratio of installment debt liquidations to disposable income fell to its lowest level since 1965, suggesting that people could step up their use of credit even more, if they wanted to.

If they are contemplating the purchase of a home, people could apply their enhanced borrowing power towards the sizable mortgage sure to be needed. So far, however, the acquisition of new mortgage debt, the other principal component of

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household debt, is still sluggish. Deterred by high sales prices and lofty mortgage interest rates, consumers have backed away from the housing market, sending home sales and mortgage originations plummeting. In 1981, mortgage debt outstanding on one- to four-family homes increased by slightly more than six per cent year-over-year, less than one-half the average annual rate of rise during the 1970s. This, in turn, caused 1981's increase in total household liabilities to be one of the slowest annual rises on record.

. . . Should Buoy Consumer Spending

The strengthening of the liability side of household finances occurred at the same time that household holdings of liquid assets (cash, NOW and savings accounts, money market fund shares and Treasury securities) surged. The value of these holdings soared to an all-time high last year, whether measured in current or constant dollars, while the ratio of liquid assets to household liabilities—a ready net worth indicator—posted one of its largest annual gains ever (see chart on page 1).

But that is not the only positive news for the consumer. On July 1, household spending capacity will be boosted by a 7.4 per cent cost of living adjustment to Social Security payments and a

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/2/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	138.946	+ .522	+10.779
Loans to Depository Inst.	1.052	– .002	– .900
Float	2.527	+ .532	– 1.529
Total Reserve Bank Credit	151.319	+ 1.368	+ 7.653
Treasury Deposits with Federal Reserve Banks	2.838	– .185	– .144
Currency Outside Banks	130.289	+ .477	+ 7.738
Member Bank Reserves:			
Required	38.932	– .010	– .944
Excess (Deficiency)	.774	+ .636	+ .485
Total Reserves Held	39.706	+ .626	– .459
Net Borrowed Reserves	.018	– .640	– 1.358
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	91.035	+ .150	– 5.501
Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	452.8	+ 4.5‡	+ 5.3‡
M2 (May '82)	1,894.7	+ 10.2	+ 9.4
M3 (May '82)	2,275.4	+ 11.0	+ 10.2
L (January '82)	2,658.6	+ 9.1	+ 10.9

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 6/11/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	11.85%	12.05%	12.05%
* Federal Agencies	12.65	12.75	13.17
* Project Notes–Taxfree (46% Taxable Equivalent)	13.89	14.63	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	13.80	14.05	14.30

‡Finance Company Paper–Prime

5- 14 days	13.63%
15- 29 days	13.50
30- 59 days	13.50
60- 89 days	13.38
90-179 days	13.25
180-239 days	12.75
240-270 days	12.00

‡* Bankers' Acceptances

Jul.	13.50%
Aug.	13.40
Sep.	13.35
Oct.	13.30
Nov.	13.25
Dec.	13.10

‡Industrial Paper–Prime

30- 89 days	13.50%
90-120 days	13.45

†Federal Funds Effective Rate 14.05%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'82	$ 2,992	$ 2,998	$ 2,853
Gross National Product (1972 Dollars)*	1st Q'82	$ 1,482	$ 1,498	$ 1,516
Percent Change, Annual Rate	1st Q'82	– 4.3	– 4.5	8.6
Change in Consumer Prices (all urban consumers)*	Apr '82	2.4%	– 3.6%	4.8%
Change in Producer Prices*	May '82n	0.0%	1.2%	2.4%
Civilian Employment (Thousands of Persons)†	May '82	100,117	99,340	101,045
Unemployment as % of Civilian Labor Force†	May '82	9.5%	9.4%	7.5%
Personal Income*	Apr '82	$ 2,531	$ 2,523	$ 2,354
Leading Indicators Composite Index (1967=100)†	Apr '82	125.2	124.2	137.3
Industrial Production Index (1967=100) †	Apr '82	140.7	141.5	151.9
Net Change in Consumer Installment Credit†	Apr '82n	$ 1.18	$ 0.99	$ 2.72
U.S. Merchandise Trade Balance †	Apr '82	–$ 0.32	–$ 2.64	–$ 3.48
Plant and Equipment Expenditures*	3rd Q'82n	$328.04(a)	$336.77(a)	$328.25
Private Housing Starts (Thousands of Units)*	Apr '82	881	941	1,301
New Construction Expenditures*	Apr '82	$ 232.8	$ 234.2	$ 246.5
Total Business Inventories†	Apr '82n	$ 508.5	$ 507.6	$ 487.1
Total Business Sales†	Apr '82n	$ 339.9	$ 343.1	$ 350.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

ten per cent, across-the-board cut in personal income tax rates. The increase in Social Security payments alone is expected to pump some $11 billion into the economy over the next year while the personal income tax cut should kick in about $35 billion more. Together, the potential consumer spending stream will widen by at least $46 billion. These are almost completely after-tax dollars—and are equivalent to 28 per cent of the overall gain in disposable incomes during the 12 months ending April 30.

Will Inventories Be Far Behind?

An upturn in consumer spending may not be the only factor contributing to at least a slight business uptick. If final sales do increase briskly, this could set the stage for a snapback in business inventory spending. Since November, 1981, total business inventories (manufacturing and trade) have been pared sharply, despite a modest gain in April, as businesses attempted to bring existing stocks into better alignment with sales. To date, they have been at least partially successful. Overall, the inflation-adjusted inventory-to-sales ratio stood at an estimated 1.75 in April, below its 1.79 January peak—and not far from where it has stood, on average, at the bottom of the last three recessions. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (5/26/82)	136,064	+ 2,178	+17,464
New York City (5/26/82)	34,093	– 1,069	+ 6,073
Commercial Paper (5/26/82)	176,104	– 139	+35,483

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/26/82)	208,256	+ 771	+32,299
New York City (5/26/82)	58,678	+ 527	+ 7,330

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/26/82)	482,970	+ 2,122	+48,530
New York City (5/26/82)	112,742	+ 1,083	+ 9,710

Financial Markets

	Friday 6/11/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	12.62%	+ .12	– 2.16
180-Day Bills†	13.20	+ .20	– 1.48
Longest Bills†	13.56	+ .26	– .70
Recent Issues:			
13 3/4s 5/31/84	14.14	+ .25	
14s 3/31/86	14.14	+ .24	
13 3/4s 5/15/92	14.01	+ .15	
14s 11/15/11	13.66	+ .08	
Municipals:			
Bond Buyer–20 Bond Index* (6/10/82)	12.40%	+ .27	+ 1.77
Blue List Total ($ Million)	$1,057	– $134	– $ 23
30-Day Visible Supply ($ Million)	$2,854	+ $502	+ $849
Total	$3,911	+ $368	+ $826
Corporates:			
Moody's Aa Composite (6/10/82)	15.13%	+ .10	+ .74
30-Day Visible Supply ($ Million) ‡	$2,005	+ $ 25	NA
Stocks:			
Dow-Jones Averages:			
Industrials	809.74	+ 4.76	– 196.54
Transportation	318.50	+ 1.43	– 107.84
Utilities	109.96	– .56	– .12
65 Stocks	316.65	+ 1.16	– 72.08
Standard and Poor's 500 Stocks	111.24	+ 1.15	– 22.34
N.Y.S.E. Composite Index	63.94	+ .52	– 13.66
N.Y.S.E. Avg. Daily Vol. for Week (000's)	53,474	+ 7,479	+ 1,436

* 46% Taxable equivalent 22.96%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/11/82	Week Ago
Overnight	14.00%	13.50%
1 month	14.31	14.44
3 month	14.75	14.56
6 month	14.94	14.69
1 year	15.00	14.69
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.65%	14.57%
Long Term (7 to 15 yrs.)	14.75	14.70

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/11/82)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02216	45.13
Canada	.7948	1.2582
Denmark	.1225	8.1605
France	.1598	6.2595
Germany	.4188	2.3880
Italy	.0007544	1325.60
Japan	.004054	246.68
Mexico	.02103	47.55
Netherlands	.3787	2.6405
Switzerland	.4898	2.0418
U.K.	1.7760	.5631

The Manufacturers Hanover Westchester Classic

WHERE:

Westchester Country Club, Harrison, New York

From New York City on the New England Thruway: Exit 20. From Connecticut: Exit 21. On the Cross Westchester Thruway, East: Exit 10

WHEN:

Monday, June 21, thru Sunday, June 27

Monday: Qualifying Round; Tuesday: Practice Round and Junior Golf Day; Wednesday: Pro-Am; Thursday: First Round; Friday: Second Round; Saturday: Third Round; Sunday: Final Round

WHO:

Many of the top pros on the PGA TOUR— including Ray Floyd, defending champion—competing for $400,000 in prize money. Winner's purse: $72,000

HOW:

Tickets available at the gate and at all branches of Manufacturers Hanover in Westchester County

Sports House and Grounds: $50 for all 7 days; $5 each day for Monday and Tuesday; $10 for Wednesday; $15 each day for Thursday, Friday, Saturday and Sunday

Grounds only: $40 for all 7 days; $3 each day for Monday and Tuesday; $6 for Wednesday; $12 each day for Thursday, Friday, Saturday and Sunday

Youngsters 14 and under, accompanied by an adult: $5 (at the gate only)

WHY:

The opportunity to see championship golf and support the 11 Westchester hospitals that share in the proceeds

For ticket information, call 914-967-5356

SEE YOU THERE!

MANUFACTURERS HANOVER

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